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LETTER DATED 2 AUGUST 1996 FROM THE SECRETARY-GENERAL ADDRESSED TO THE PRESIDENT OF THE SECURITY COUNCIL

I have the honour to communicate to you, and through you to the members of the Security Council, my deep concerns over the difficulties faced by the United Nations Transitional Administration for Eastern Slavonia, Baranja and Western Sirmium (UNTAES) in securing funding for the operation of existing local administrative structures in its area of operations.

As described in paragraph 17 of my report S/1996/472 of 26 June 1996, UNTAES assumed control of the Djeletovci oil field, the main source of revenue for the region, on 14 May 1996. Oil production had been stopped pursuant to an agreement between Croatia and the Federal Republic of Yugoslavia as a condition for reopening the Adriatic Oil Pipeline. Prior to their departure, local militia also mined the area. With the closure of the oil field, the revenue base of the local administration has been deteriorating steadily and is becoming worse. Salary and wage payments for the month of June were only paid last week, and payments for July are only possible by utilizing the last local reserves held in Belgrade banks together with the disbursement of six million kuna (US$ 1.2 million) being made available as a one-time payment by the Croatian Government.

Even these funds are insufficient to meet operational costs, including payment for fuel and utilities, which Serbian companies are threatening to cut off. UNTAES has been informed by the Serb Executive Council for the Region that electricity will be cut off as of 5 August should accumulated dues not be paid. Electricity supply has already been reduced as a result of non-payment. Mr. Jacques Paul Klein, the Transitional Administrator, has expressed concern that a further deterioration of the present financial situation is leading to a rapid depletion of the local civil service which, in turn, could lead to a general break-down of law and order in the region.

The precarious state of finances for administering the region has begun to erode public confidence in UNTAES. In a meeting of the Vukovar Municipal Assembly on 9 July 1996, UNTAES was strongly criticized for failing to deliver economic support to the region. If resources for funding the local

administration are not found and disbursed in the coming three to four weeks, UNTAES may be faced with a rising tide of social unrest as the financial situation deteriorates. Already, there have been a number of demonstrations in front of the UNTAES Headquarters in Vukovar and more are expected in the near future. Instability in the area is likely to have an impact on the region as a whole.

The Transitional Administrator has been actively pursuing all possible sources of funding for the local administration, to no avail. It is regrettable that the Croatian Government has not yet been sufficiently forthcoming in providing such funding, despite its obligation to cooperate fully with UNTAES and its evident responsibility to financially support the orderly administration of a region whose peaceful reintegration into Croatia is the basic objective of UNTAES. In this connection, I should like to recall the need, referred to in paragraph 22 of Security Council resolution 1037, for contributions from the host country to offset the costs of the operation.

The Government of Croatia initially indicated that it would provide 12 million kuna (US$ 2.2 million) per month for the local administration but has since reduced its commitment to a one-time payment of 6 million kuna. A proposal to use the revenues from the reactivated Djeletovci oil field has also borne no fruit as the Croatian Government now states that its national oil company does not have resources to make regular monthly payments. In any case, demining of the area would be required before a resumption of production and profits could not be generated for two to three months.

The European Commission has pledge US$ 10 million for reconstruction projects, which would help to generate economic activity in the area, but it appears that these funds will not be available until September or October, and will not increase the local revenue base for some months after then. The idea of a pledging conference has also been explored, but has not been well received among potential donors.

Extraordinary financial support for the civil administration of Eastern Slavonia is therefore urgently required for a period of up to six months starting 1 August 1996, pending the commencement of a reliable source of funding from the Government of Croatia. The purpose of this support would be to maintain local administration and public services to the population during the transition period in order to avoid a collapse of local government, ensure reasonable stability in the region, establish and exercise control over the Transitional Police Force, launch a package of reconstruction projects to decrease unemployment rates and absorb demobilized ex-combatants into the economy, and ensure that the existing administration will be turned over intact to the new authority.

The Transitional Administrator has advised me that very preliminary estimates indicate a monthly requirement of some US$ 2 million, or 10 million dinars (the local currency), broken down as follows:

Sector	Amount (dinars)
Health	1.5 million
Education	2.5 million
Police	2.0 million
Administration	0.6 million
War invalids	1.5 million
Operational costs (fuel, utilities)	1.9 million

Having already invested so much effort and resources in achieving a peaceful reintegration of the region into the Croatian constitutional system, it would be a tragedy for the UNTAES mission to fail for want of a relatively small amount of resources. Since UNTAES' mandate does not contain financial provisions for administering the region, it has become imperative to seek reliable financing from elsewhere, in the amount of US$ 10 million in order to cover the next 5-6 months.

I have explored various alternative solutions but none has proved feasible. I am gravely concerned that the deteriorating situation will jeopardize the viability of what has so far been a successful mission. I should be grateful, therefore, if you would bring this letter to the attention of the members of the Security Council.

(Signed) Boutros BOUTROS-GHALI